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INTERNATIONALIZATION STRATEGY OF LABIRINTO SHOES TO SYDNEY (AUSTRALIA)

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Executive Summary

Filipe Shoes is a family business in the 3rd generation¹ that sells footwear and specializes in the production of moccasin shoes. Recently, given their desire for greater autonomy in their decisions in addition to achieving higher returns in their business, the firm has started to restructure their strategy. This new project consists in the creation of a new born brand, named Labirinto Shoes to be targeted at an active population, seeking traveller's shoes that are comfortable and versatile enough be worn on a daily basis.

Furthermore, as a consequence of the saturation of the Portuguese market, this new born brand has decided to opt for an internationalization route. Sydney appears as a way to diversify risk and increase profits through market expansion. This work project acts as a consulting assignment, providing insights into the Australian business environment and deliver trustworthy recommendations to increase the probability of success in this market. Findings suggest that Australia is indeed a challenging but promising option with considerable potential.

Key words: Labirinto Shoes; Filipe Shoes; Footwear; Internationalization strategy; Sydney; Australia.

Firm History

Silva e Sousa & Irmãos was established in 1949 in the north of Portugal, where most of the shoe industry is located (See Appendix 1 for more on the Portuguese footwear industry). This firm was created by José António Sousa who began solely producing men shoes, made of 100% leather, and sold them to the most highly regarded footwear stores of Lisbon and Porto.

With time came the transfer of this business to the next generations which, due to different periods and trends, had to adapt to the new competitive environment they were facing. It was in the hands of the 2nd generation, starting in 1979, that the own brand Filipe Shoes was founded. The changes that this generation brought were; the rise of the firm's first own brand along with the production of shoes targeted to the female audience as a response to market demands and also the beginning of their exports. The growth in demand of moccasin shoes proved to be an opportunity for the firm to grow,

¹ Note that only 12% of family businesses continue into the third generation (Family Business Institute)

allowing them to move into foreign markets with their presence in International fairs. This allowed the firm to gain experience and learn how to coordinate the value chain as they were now exposed to networks of retailers and distributors. However, given that these international fairs were targeted to the B2B market, most attendants were private labels and **together with the fact that Filipe Shoes did not have brand awareness**, lead them into the private label business instead of an own brand. Filipe Shoes adapted to their clients' view and since 2010 they have almost only sold to private labels, having kept a mere 5% of their sales as an own brand.

Recently, in 2007, the 3rd generation² also entered the business and is currently managing the firm together with the previous generation as a means to transfer knowledge, know-how and values of the firm. This brought a combination of tradition and innovation, as the younger managers can bring fresh ideas that fit the overall strategy. According to Nonaka (1991), within Filipe Shoes there is a transfer of both “explicit” knowledge and “tacit” knowledge, being that the latter is more subjective. Moreover, information flows vertically and horizontally allowing the strategic objectives to be aligned throughout the organization, from top managers to manufacturers. Note that even though every generation seems to have carried along a visible change, this was a result of structured succession and a response to the needs presented by the shoe industry in Portugal. See Appendix 2 for the milestones of the firm and Appendix 3 to know more about knowledge transfer between generations.

Today, Filipe Shoes is present in more than 25 countries in all 5 continents, has 100 workers (excluding the numbers of outsourced workers) and their factory has a maximum production capacity of 2000 pairs of shoes per day but only manufactures 1800. Moreover, their production is set up to meet 85% of female users and 15% men's footwear. Currently, Filipe Shoes is mainly a manufacturer for private labels (about 300 clients) and although the brand Filipe Shoes designs the footwear they do not retain full control over the collections, depending on the contract. More specifically, there are two contract variants regarding design; the first one takes advantage of the in-house designers who create an own collection and if a client buys one of its models there is no exclusivity, meaning another client may purchase the exact same model and colors (i.e.

² Three managers (family relationship: cousins) whose interest in the company is evenly distributed as each has 33% of shares (Informa, 2014).

they use licensing contracts). However, the second option implies that collections are designed by the Filipe Shoes' clients and implies exclusivity.

Currently, Filipe Shoes is exporting 95% of production, leaving the other 5% of sales for the Portuguese market (See Appendix 4 for more financial data). Nonetheless, the challenges keep rising and the one faced by this new generation is to create a new own brand in foreign markets, this time known as "Labirinto Shoes".

Finally, regarding their capital structure, part of the firm's debt comes from financing provided by QREN. The firm recently accepted a QREN project (whose numbers they prefer to keep confidential) which will help create the new born brand Labirinto Shoes. Nonetheless, this financing source does not support the acquisition of new machinery neither does it act as a financial help to hire new workers. QREN helps in internationalization efforts; to be precise it will contribute in creating the website, the communication efforts and in the participation at international fairs, just to name a few.

Business Mission, Vision and Strategic Objective of Filipe Shoes

The **mission** of a company defines its purpose by transmitting what needs the firm decides to satisfy. Missions provide focus to the organization and its stakeholders and "guidance of strategic and day-to-day, operational decisions" (Ireland & Duane, 1992). Thus, upon interviewing the current managers, the mission of this company consists in the production of high-quality leather footwear, focused mainly on providing comfortable shoes³ to its clients at the best price-quality ratio⁴ possible, whilst taking into account the fashion trends regarding colors and shoe models.

Furthermore, the **vision** of Filipe Shoes (i.e. the future direction it aims to follow and its long-term objectives) involves reducing their dependence on private labels. Having most of their production destined for private labels does not allow the firm to be as independent in terms of strategy and decisions as they would desire. Hence, Filipe Shoe's long-term objective (to be completed in a time frame of 10-15 years' time) encompass the creation of an own brand, registered as "Labirinto Shoes", to gain more autonomy in their decisions. Furthermore, in the future Filipe Shoes wants to increase

³ Proved by the fact that the models barely have high heels and the company's slogan is "Enjoy the walk" once again reflecting the comfort characteristics

⁴ The average price to the **final consumer** is as follows: for boots € 159,90 and normal shoes € 69,90 (given the cost to produce is around 50€ for boots and 20€ for normal shoes, the margin of 20% for Filipe shoes and then the markup of 2,7 for private labels). Source: Rui Sousa, Filipe Shoes manager.

the Labirinto's brand visibility in the international market. In addition, the firm is aware of the need to gain clients' trust so they can increase their loyalty to the brand. Translating their vision into numbers, their ambitious goal is to increase the sales volume of their own brand to 30% (Labirinto), keeping the remaining 70% as sales to private labels in a time period of 20 years.

The firm's goal is to sell their own brand "Labirinto" in multi-brand stores who would add their own markup⁵ to the products. However, this is yet to be analyzed critically in the mode of entry and the implementation plan.

Labirinto Shoes does not have a clear identity or positioning yet, although the managers have said that the products will be quite similar to what they are currently producing with their brand Filipe Shoes; meaning comfortable, quality shoes for a daily basis. In fact, the way a brand is launched may have repercussions in the future, by positively impacting order volumes and values as well as its market share (Kapferer, 2008). Thus, I will suggest Labirinto's brand identity⁶ and positioning⁷ further on based on the firm's information and the PESTEL analysis of Australia.

Currently, Labirinto Shoes has been developing the communication channels (website and merchandising) for consumers to see the brand and understand what it stands for.

Labirinto Shoes target market

In order to understand the compatibility of Labirinto Shoes in other markets it is fundamental to understand their target, to know if it is transferrable to other countries or cities and if there are sales potential. Environmental differences may justify the slight alteration of certain footwear characteristics to local preferences. In regards to this, both Filipe Shoes and Labirinto Shoes define their target market according to a particular lifestyle. The brand will be directed to people who have a casual and active lifestyle, namely to individuals who value comfort and who seek shoes that are not too complex in terms of design so that they are versatile enough to be worn on a daily basis, whilst

⁵ According to Rui Sousa, a manager of Filipe Shoes, this markup for private labels is at most 2,7 times the price established by Filipe Shoes.

⁶ Brand Identity is core. It is the central aspect that will define all other elements of the brand; representing what the brand stands for and what makes it unique.

⁷ Brand positioning embodies what the managers want consumers to think about the brand or how the brand is different from its competitors

always combining with the rest of the outfit. Moreover, in terms of price range, Filipe Shoes is bound for the medium income class. Likewise, Labirinto shoes will continue to target the middle income segment. However, with slightly more sophisticated designs and higher quality materials it may also attract a fraction of a higher income segment. The firm's goal is to establish Filipe Shoes and create a new own brand Labirinto Shoes (which still does not exist) with a slight difference. Nonetheless, given the analysis of the social aspects of the Australian market, i.e. the consumer's preferences and trends, I believe the positioning may have to be distinguished further and this will be discussed further on.

Labirinto Shoes was born as a way to deliver a more "premium brand" within their portfolio of footwear, in relation to Filipe Shoes. In fact, manufacturers' of own brands (which were once associated to cheap, lower-quality products) have now become something else; "the innovators which are quick to offer consumers products that keep pace with the latest trends in society" (Kapferer, 2008). According to this author, brands are able to reinvent themselves.

Resource-Based View & Competitive advantage

Next, one must understand the resources of this firm as they are the main source of profitability and may provide them with unique characteristics in the market. "The notion that firms are fundamentally heterogeneous, in terms of their resources and internal capabilities has long been at the heart of the field of strategic management" (Peteraf, 1993). Thus, resources must be viewed as an auxiliary tool to decide which items to reinforce when the firm and its brand is presenting itself to final consumers.

More specifically, resources may be divided into: core competencies, specialized assets and architecture of relationships (see the resources that apply to Filipe Shoes in Appendix 5). Research has shown that depending on whether these resources are valuable, rare, inimitable, non-substitutable, inimitable and organizationally embedded (i.e. if they satisfy the VRIO conditions) they may be a basis for a competitive parity, a temporary competitive advantage or a sustained competitive advantage. Thus, focusing on the most significant resources, the following can be said concerning the VRIO conditions:

Figure 1 – VRIO Resources of Filipe Shoes

	Value	Rare	Inimitable	Organized	Competitive Implications
On-going research of raw materials (namely leathers)	✓	✓	✗	✓	Temporary Competitive Advantage
Partnerships	✓	✗	✗	✓	Competitive Parity
In-house design and R&D teams	✓	✓	✗	✓	Temporary Competitive Advantage
Know-How	✓	✗	✗	✓	Competitive Parity
Registered Brand	✓	✗	✗	✓	Competitive Parity
Qualified Managers with Management Bsc.	✓	✗	✗	✓	Competitive Parity

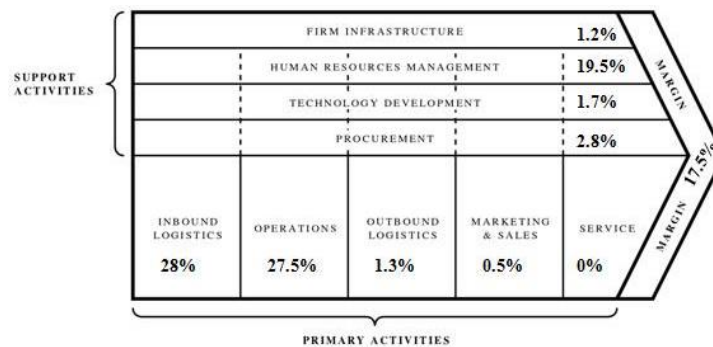
Overall, the combination of resources presented previously allows the firm to deliver a **temporary competitive advantage** and contribute to achieving the **best price quality ratio** possible. The resources that support this the most are; (a) being part of the Portuguese cluster, (b) the high quality technology (ex: automatic cutting machines and computerized manufacturing processes), (c) the on-going research of raw materials and (d) the innovation in terms of materials (i.e. the types of leather used) and the R&D.

Value Chain of Filipe Shoes

To have a clear internal knowledge of the firm in hand it is also critical to understand its value chain since it explains the contribution each activity has on the final profit margin of the firm. According to Porter, it may help create the firm's competitive advantage which is gained "by performing strategically important activities more cheaply or better than its competitors" (Porter, 2008).

Moreover, according to McKinsey and Company (2014), a firm's value chain reflects a firm's history and its strategy. The value chain decomposes the firm into both primary and support activities. As Porter states, primary activities directly influence the production process of the product, its sale to its target audience and aftersales assistance. On the other hand, support activities are indirectly related to the product itself and instead are responsible for supporting the primary activities as is the case of procurement, technology, human resources, and other transversal activities of the firm. Regarding Filipe Shoes, the following can be represented:

Figure 2 – Filipe Shoes’ Value Chain



In regards to the **primary activities**, the **inbound logistics** costs derive from the costs of the inputs to manufacture the final product and the screening of these raw materials, but mostly the leather (ex: measuring). With the leather for instance, when it comes to quality control, the margin of error allowed is only 3%. In terms of **operations (i.e. manufacturing process)** this is subdivided into 4 different sub-activities; cutting, sewing (with 90% of this activity being **outsourced**), assembly and finishing touches. See Appendix 6 to understand which activities each stage comprises. Still concerning the operations, another cost driver refers to a person in each sub-stage responsible for supervising these operations to assure quality control. Also within the primary activities are the **outbound logistics**, accountable for making the final product reach the end consumers. In this case, outbound logistics only includes the costs of managing the finished goods warehouse as the clients (B2B firms of private labels) are responsible for the distribution channels incurred. In respect to **marketing and sales** these are outsourced to a firm with a brand creator (brandcreativestore.pt) who develops the logo, slogan, website, etc. Moreover, having one of the three manager’s visit international fairs⁸ to present the company profile is yet another communication channel employed. Finally, the **aftersales service** is fairly simple, relying on phone calls and emails in case of dissatisfaction of clients. The firm does not currently invest in this department.

As regards to **support activities**, the **infrastructures** include three interconnected factories (i.e. raw materials, manufacturing & finished good warehouses), facilitating the communication and logistics process between them. In terms of **human resources**, Filipe Shoes firm employs 100 internal workers (see Appendix 7 for an organizational chart), excluding the outsourced ones. Equally important is **technology**,

⁸ Filipe Shoes has been present in international shoe fair such as Riva Del Garda (Italy), GDS (Dusseldorf, Germany), Kabo (Czech Republic) and Polshoes (Poznan, Poland).

given the capital requirements needed for footwear manufacturing and the computer systems used as a means to control the manufacturing process. Also, in terms of **procurement** activities these include the firm's excursions to fairs in search of suppliers (mainly from Portugal, Spain, Italy & India) as well as clients.

To conclude, as seen in the graph above, the average margin for the brand Filipe Shoes is currently around 17,5%. However, for Labirinto Shoes this is still unknown as this brand will only start to exist in 2015 and thus has no sales yet. Nonetheless, this topic will be covered later on in the financial projections of this internationalization plan.

Industry Map

The industry map is representative of the main players in the industry as well as the connections existent between them. As such, Filipe Shoes has two types of suppliers. First of all, **leather suppliers** who are located in Portugal (50%), Spain (20%), Italy and India (each with 15%). However, because of the price volatility of this commodity these suppliers are bound to some changes over time; Filipe Shoes may modify their supplier network to maintain the good price quality ratio they deliver. Secondly, the firm requires **suppliers of other material as shoe soles, glue and thread** who are all delivered by Portuguese firms (15 suppliers). All suppliers visit the firm directly through agents. Furthermore, Filipe Shoes defines its suppliers according to the following criteria: quality, price and conditions of payment, maintaining a list with a variety of current and potential suppliers in order to diminish the risk of delays or supply failures.

Other crucial players are the **distributors and clients**, which in the case of Filipe Shoes overlap seen as they are the same entities. With Labirinto Shoes, the clients are also expected to take care of the distribution. Currently, the clients of Filipe Shoes are all the private label brands in more than 25 countries across the globe⁹ that are also responsible for the distribution and enable the shoes to reach the final consumers.¹⁰

⁹ such as **Portugal, Spain, France, Italy, UK, Belgium, Finland, Russia, Angola, Israel, USA, Canada, Thailand, Japan, Australia, New Zealand**, etc.

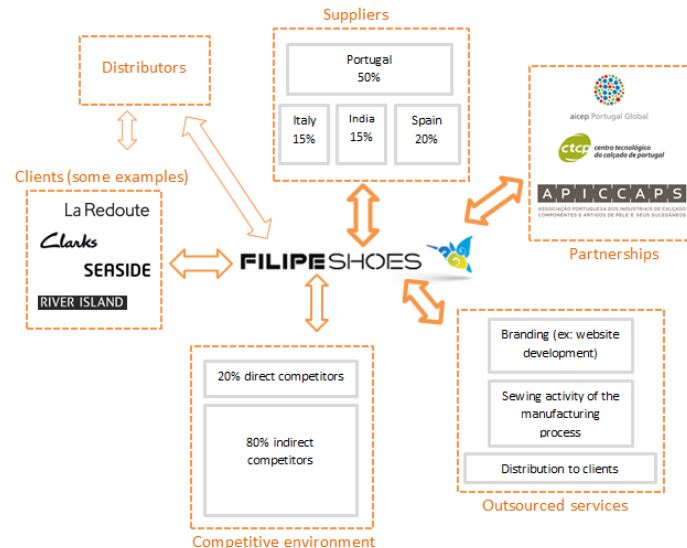
¹⁰ Some examples include: (i) **In the UK:** *Clarks and River Island*, (ii) **In France and Germany:** big presence in catalogues (ex: *La Redoute*) and (iii) **in Portugal:** *Seaside*.

Filipe Shoes uses a direct approach with these clients that consist in e-mails, phone calls and exhibitions at fairs.

Another key aspect is Filipe Shoe's relationships with **strategic partners**. AICEP contributes in the internationalization of firms by studying foreign markets, whilst APPICAPS contacts international footwear fairs in addition to helping assure transportation of shoe collections to the fairs, logistics and employees accommodation. Then, CTCP is responsible for the technology development of the shoe industry and its cluster. For instance, all physical and chemical tests are performed in the laboratories of CTCP.

Filipe Shoes also faces **direct competitors** that can be classified as those firms who sell shoes to the same market and use the same materials as Filipe Shoes. In the Portuguese market, Filipe Shoes' managers consider that only 20% of the companies are their direct competitors. On the other hand, companies that sell footwear, but are not specifically targeted to people who use comfortable quality shoes, are seen as **indirect competitors**. The following figure summarizes Filipe Shoes' Industry map¹¹.

Figure 3 – Firm's Industry Map



¹¹ The thicknesses of the arrows show the importance of the relationships. The largest are considered 1st tier relationship (the most important) which include outsourced services, suppliers and partnerships because these are the critical entities that ensure the final quality of the product.

Motives for Internationalization

Once the firm has been thoroughly analyzed, it is now time to move into the motives of internationalization. The main driver for Labirinto Shoes to internationalize is the belief that the Portuguese market is not big enough to capture as much revenues as they need and has small growth opportunities. The three main firm-specific reasons for Labirinto Shoes to expand its business overseas are; (a) the need to increase sales volume and consequently sales value, (b) gain new organizational resources and (c) diversify risk (Daniels, 2013). A rise in sales and scale of the firm may give the possibility of reducing per-unit costs as fixed costs are diluted (i.e. give origin to economies of scale). Regarding resources, being present in a new market usually enables firms to develop their products further due to their need of adaptation and allows acquisition of new knowledge or other resources that may help create a competitive advantage. Finally, in terms of risk, these may be minimized by reducing sales volatility if a firm expands to a country with different industry cycles.

Filipe Shoes has to define the criteria used when selecting the country in which they want to enter by screening the macroeconomic conditions. All in all, Filipe Shoes intends to enter the Australian market with the brand Labirinto; **a decision taken by the firm** mainly due to the dimension of this market and as footwear in this country is a very fragmented industry this shows that Australia is quite receptive to new brands. Having 2011 as the closest data available, Australia represented the world's 16th largest importer in value, having one quarter of their imports destined to leather footwear.¹² However the downside is that it is harder to stand out in this Australian market, given the high level of rivalry. See Appendix 8 to see the variables chosen when considering the country.

Australia's PESTEL Analysis

Having chosen the destination of Labirinto Shoes' collection, one must overview of the macroeconomic factors that can influence the firm's performance in this market. Thus, the PESTEL analysis is developed throughout this section.

¹² With a the total amount of imports in the amount USD 1 333 million (€1,083.43million), representing 1,3% of the world share. (APPICAPS, 2011).

Politically speaking, Australia is an extremely stable country with a democracy since 1901. This nation follows the Australian Constitution, responsible for matters such as foreign relations and trade. **Economically**, Australia is a promising place to do business. In 2013, Australia had a population of 23,4 million (Australian Bureau of Statistics, 2014) with 89% living in urban areas (Data.worldbank.org, 2014). The population distribution in Australia and in Sydney may also be seen in Appendix 9. The economy ranks 12th place in the World, with a nominal GDP of USD 1,5 trillion (€1,22 trillion)¹³, representing 1,9% of the World's economy. This trend is forecasted to remain in the following years, with the average annual GDP expected to grow 2,8% from 2013 to 2019 (Austrade.gov.au, 2014).

Another relevant factor is the income distribution patterns of the population. The GDP per capita in Australia has constantly increased and is very high, registering USD 67,468 (€ 54,797.67) in 2013 (Data.worldbank.org, 2014). Moreover, according to the Australian Bureau of Statistics the Gini index was of 0,32 in the period of 2011-2012. This means that the country has a slightly uneven distribution of income; especially taking into account the huge difference between the rural and metropolitan areas. Moreover, the unemployment rate which allows for the indirect reflection of the population's purchasing power, is currently standing at 6,1% (Tradingeconomics.com, 2014).

The Australian population may be decomposed into 5 different samples (quintiles), depending on their annual disposable income. The 1st quintile has the lowest annual disposable income with a value of AUD 16.328,00 (€11,171.56) whereas the 5th has the highest annual disposable income registered as AUD 88.608,00 (€ 60,626.90) in March 2013 (NewsComAu, 2014). In any case, Australian consumer's expenditure per capita has risen since 2009 and although with some volatility between 2009 and 2013, in the past year it was USD 21801,45 (€ 17,713.35) (Data.worldbank.org, 2014). For information of Australia's spending patterns see Appendix 10.

More specifically, regarding the footwear and apparel industry it accounted for USD 3,3 billion (€ 2,68 billion) in 2013 (IBIS World, 2014) and the expenditure per

¹³ All conversions through the main text of this work project were done on the 3rd of December 2014 on the following websites:

<http://www.x-rates.com/calculator/?from=USD&to=EUR&amount=1000>
<http://www.x-rates.com/calculator/?from=AUD&to=EUR&amount=1000>

capita was of USD 884,1 (€ 718,30) (Euromonitor International, 2014). See Appendix 11 for information of sales volume and value as well as growth and Appendix 12 for import information. Concerning the exchange rates, the Euro has always been stronger than Australian dollar (see Appendix 13) and the inflation rate was registered as 2,3% (Reserve Bank of Australia, 2014). For more on the economic forces see Appendix 14.

Socio-Cultural: on the topic of consumer's preferences, there are many interesting insights. First of all, despite the increasing GDP per capita and their income, consumers have become more price sensitive and this can be seen by the trend of searching for promotions or any other kind of discounts. Also tied to price consciousness, is Australian's appreciation for loyalty programs.¹⁴ Nonetheless, one of the categories in which they spend most of their accumulated income is not only in vacations but in getting prepared for them. **According to Expedia, over half of Australian population spends in getting ready for the trip, namely 40% buy clothes and footwear thinking about their journey overseas** (Watson, 2014).

Moving into the social factors of the fashion market and concerning demographics, men are increasingly worried about their looks. This can be seen through 2% retail value growth of men's footwear in both retailing and manufacturing during 2013, with the latter registering AUD 1.2 billion (€0,82 billion) in value (Euromonitor International, 2014). Regarding the high-end fashion market, these brands have been able to avoid fluctuation in sales values and are not as affected by consumer's confidence levels in the economy. Australians are captivated by European fashion. Many international brands entered this market in 2013, including names like Hollister, Timberland, River Island or Urban Outfitter. However, many of these brands have been accused of charging up to 35% more than their overseas branches given incremental costs (i.e. taxes, shipping costs, etc.).

In terms of design, Australian consumers call for adaptation from these international brands; they appreciate if collections are tailored to the Australian style. This reflects the need Labirinto Shoes has for local design in its value chain activities.

¹⁴ Which once again mostly include discounts or point based programs with the possibility of converting to coupons, products, etc. "Australian consumers love getting fringe benefits and many are spending more time with retailers that offer loyalty programmes. A new study commissioned by marketer Directivity and digital agency Citrus found that loyalty programmes are far-reaching, with 88% of consumers over the age 16 years-old belonging to a programme." (Euromonitor International, 2014)

According to GAP, one of the firms who recently entered this market, Australians were considered to have a similar, classically American, casual style.

Also interesting is that although Australia's location causes them to have different seasons than most of the fashion capitals, they still want to follow the trends that the latter exhibit. This means Australians have started to stock both seasons at the same time, meaning retailers started selling winter and summer clothes simultaneously (ex: Myer department stores in 2013).

Regarding firms stocks and supply chain management, an influencing aspect is Australians receive salaries on the 15th of each month and typically spend part of it in shopping around this time. For more on the socio-cultural forces see Appendix 15.

The **technological factors** in this country are extremely advanced in terms of e-commerce for instance (See Appendix 16 for Australian e-commerce statistics). This shows how consumers have shifted towards a different shopping approach; multi-touch point brand engagement. Now, consumers not only go to physical stores but they also search online before purchasing. According to Euromonitor, in 2013 most of the population (nearly 90%) had internet in their households; where 80% bought online every six months and 16% once per week. Value wise, the National Australia Bank (NAB) says that per every dollar spent on the retail industry, six cents are online.

Regarding the footwear industry, its technology has evolved during the production process, through the use of laser cutting machines for instance. Nevertheless, production is hardly made in Australia as they import most of their footwear. Thus, the technologic advances in shoe manufacturing for this country are not as relevant.¹⁵

Environmentally, Australia is a huge county but population is highly concentrated in certain cities, leading to one of the largest urbanization rates¹⁶ in the world. Another environmental aspect that affects shoe production is climate change. Over the last 100 years, Australian average temperatures have risen 0.9°C (Dfat.gov.au, 2014). In line with this global warming occurrence is the increased heat waves felt in this county and reduced frosts. More specifically, Australia's environment varies per state (See Appendix 17).

¹⁵ Innovation at the product innovation is not very likely, with exception to sports footwear; brands like Nike and Adidas have done so through the use of GPS technologies in sport shoes, for instance. Technology advances are more prone to happen in the service/operational level of the footwear industry (examples: improvements in electronic scanning, inventory management, logistics systems, etc.)

¹⁶ More specifically, the urbanization rates are mostly felt in the coastal area, having above 80% of the population live within 100 kilometers of the sea.

Legally, AICEP Portugal Global report gives insights on access conditions to this market. The majority of imported goods (including footwear) do not require licenses. Besides, Standards Australia is responsible for product's labeling to certify that they comply with the requirements and the Goods and Service Tax (GST) of 10% is also charged.

According to European Commission's Trade Market Access Database, leather footwear products are labeled in agreement with the Harmonized system, through the code of 6403. Tariffs for exports of this good from the EU to Australia are 5% of FOB value¹⁷. This same source of information, reveals another barrier to entry reflected through a legal issue; the Australian Government's aid of AUD 747 million (€510.91 million) for Australia's Textile, Clothing and Footwear (TCF) industry, which began in 2003 until 2015. This grant was made to incentivize the sector to invest in R&D and innovation. However, this scheme is said to be the last assistance package.

Finally, there is also an import processing charge if the value of imports is above AUD 1,000 (€ 683.90), see Appendix 18 for more information.¹⁸

Porter's Five Forces for the Australian Footwear Industry

To complement the country's market analysis, the following section uses Porter's Five Forces model to explain the characteristics of this industry. Remember, buyers are considered the end consumers whereas the suppliers are assumed to be footwear manufacturers.

Buyer Power (moderate): As the number of buyers is large, no individual buyer is able to exert significant power. Still their price sensitivity (influenced by their disposable income, real household discretionary income, consumer sentiment index, etc.) or the existence of substitutes increases buyer's power as they can look elsewhere and reduce the firm's revenues. However, if enterprises produce high differentiation products or target niche segments the power is transferred to the firms rather than the buyers.

Supplier Power (moderate): Over 75.0% of footwear is imported, mostly from low cost manufacturers in Asia. China explains 67% of this figure, with the second

¹⁷ This means the seller transports the goods until the port from which they are going to be exported and loads them on the boarding vessel. From the port of departure onwards, the risks are then carried by the buyer.

¹⁸ For more on the legal forces see Appendix 19.

importer (Italy) representing a mere 5,8% (IBIS World, 2014).¹⁹ Given the proportion of imports from China this country has a lot of power. Nevertheless, as there are a high number of individual suppliers in this country which are small and have low differentiation, they can easily be substituted by each other. All in all, an oligopoly²⁰ will not occur in this market, thus decreasing supplier's power. Additionally, the probability of suppliers being vertically integrated with retailers is extremely low, once again decreasing their power as they cannot sell directly, usually needing intermediaries. Overall, supplier power can be increased by investing in a high degree of differentiation and the quality and reliability of products. Also, if suppliers demand contracts with permanence clauses they will augment the switching costs and hence supplier power.

Threat of new entrants (moderate): Currently, brands are not very focused on branding which decreases consumers brand recognition. For this reason, new brands can easily make it into the market. However, the consolidation of retailers felt in Australia allows easier gains with economies of scale (ex: through bulk purchasing), increasing their market power and posing as a barrier to entry for some brands. Retailers are deciding which brands to stock. On the other hand, if the brands want to establish their own stores, in this case there are high fixed costs which can also increase barriers. Overall the threat of new entry in this industry is moderate and the major threats are now coming from complementary industries (ex: Clothing Retailers and Department Stores) that also sell footwear and from online retailers. Moreover, industry profit margins are expected to rise, representing 4.7% of revenue in 2018 (IBIS World, 2014) which further increases the threat of new entry.

Threat of substitutes (moderate): Although footwear is an essential item, it is only so until a certain point. Once consumers have sufficient shoes it becomes more of a superfluous good. As such, consumers start seeking for alternatives, taking into consideration their price sensitivity. In fact, the threat of substitutes is higher for low cost footwear than for niche segments as their products are usually less differentiated. In the shoe industry switching costs are low as is loyalty to brands, increasing the threat of

¹⁹ See Appendix 20 for more information of Australian footwear international trade.

²⁰ low number of small suppliers who collude to sell at higher prices

substitutes. Moreover, retailers usually sell more than one brand within their stores, increasing the competition and the likelihood of consumers buying other brands.

Degree of rivalry (strong): The degree of rivalry may be seen amongst manufacturers of the brands or at the retailer's level. Anyhow, the fragmentation is felt in all levels; manufacturers have a low concentration index (C4)²¹ of 19,7% as do retailers, with an accumulated revenue of the four biggest retailers accounting for 24.9% of total revenue. See Appendix 21 for a graphic illustration of the drivers of Porter's forces in the Australian footwear market.

SWOT/TOWS Analysis

Given the knowledge regarding the Australian market and the firm being studied, a SWOT analysis can be shaped to point out the internal strengths and weaknesses of Filipe Shoes, taking into account the external environment (i.e. opportunities and threats of the market). Secondly, strategies will be suggested in the TOWS analysis to enhance the firm's likelihood of success in Australia.

SWOT ANALYSIS	
Strengths:	Weaknesses:
<p>S1. Filipe Shoes interactions (ex: procurement, distribution, shoe cluster, etc.) give them experience and know-how.</p> <p>S2. International presence.</p> <p>S3. Shoe benefits – comfortable, made of high-quality leather.</p> <p>S4. Past experience in launching an own brand (learning curve)</p> <p>S5. Price is good value for money.</p> <p>S6. Portugal is Nr. 1 in technology in the production process. (APPICAPS, 2013)</p> <p>S7. Good quality management</p> <p>S8. Good reputation of Portuguese footwear production.</p> <p>S9. Reliability and trustworthiness of the brand Filipe Shoes (already well-established with many private labels).</p>	<p>W1. Very disperse collection (too broad).</p> <p>W2. Relatively low margins on their products (Amadeus reports 2,79% although managers say it is 17,5%.)</p> <p>W3. Dependent on suppliers' delivery deadlines of inputs.</p> <p>W4. Unable to constantly invest in R&D and innovation.</p> <p>W5. New brand with no recognition/reputation in the market.</p> <p>W6. Limited company size to increase production.</p> <p>W7. Labirinto Shoes is not an easy name to pronounce nor is it related to the brand's footwear portfolio.</p>
Opportunities:	Threats:
<p>O1. High concentration of Australian population in the coastal areas.</p> <p>O2. Pacific brands which include Clarks (<i>a Filipe shoes client</i>) led footwear sales in 2013.</p> <p>O3. Value growth of 2% in sales of male footwear that shift to good quality shoes.</p> <p>O4. Australian's spend income in pre-travel preparations (ex: footwear purchases)</p> <p>O5. Australian industry starts focusing on niche segments, reducing their product range.</p> <p>O6. Firms shift from cost advantage to a differentiation competitive advantage, placing "greater emphasis on brand development."</p> <p>O7. Australia is a great market for rapid product penetration.</p>	<p>T1. Increasing competition from international brands and higher consolidation through acquisitions.</p> <p>T2. Competition from companies within apparel who want to expand into footwear business.</p> <p>T3. Lower prices of international brands and access to greater variety through e-commerce, especially as imports bellow A\$ 1,000 are exempt from duty and the local 10% goods and service tax. E-commerce business saw an increase of more than 46% between 2011 and 2013.</p> <p>T4. Australia's geographic distance may significantly increase costs. It may negatively affect the supply chain agility (in terms of speed) in what concerns delivery.</p>

²¹ Market share of the 4 largest firms

<p>O8. Different time zones and industry cycles.</p> <p>O9. Footwear fairs in Melbourne and Sydney.</p> <p>O10. Australian stores started to stock both seasons simultaneously.</p> <p>O11. NSW has the most population; 7,5 million in 2014 (ABS, 2014).</p> <p>O12. The largest proportion of population in greater Sydney corresponds to the age segment between 25 – 39 years old and there is slightly higher proportion of females than males. (ABS, 2014).</p> <p>O13. The middle class in Australia has increased between 2008 and 2013, having risen 8.4%. Besides, it has a “<i>high purchasing power, given Australia’s relatively high average household income (median household annual disposable income of US\$90,753 in 2013.)</i>” (Euromonitor International, 2014)</p> <p>O14. The state of NSW is the most valuable market, accounting “<i>for almost one-third of total consumer spending in the country</i>” (Euromonitor International, 2014)</p> <p>O15. The middle class segment accounts for over 70% of Australia’s population (The Australian Business Review, 2013)</p> <p>O16. In Australia, more than 8 million travel overseas (Trade, 2014)</p>	<p>T5. Seasons are not the same as in the country which manufactures the shoes – affects the design of collections.</p> <p>T6. Replacement of leather with synthetic materials although this is not as true for high-quality shoes.</p> <p>T7. Consumers start seeking eco-friendly products.</p> <p>T8. Late entry into the market relative to competitors</p> <p>T9. Australian dollar is less valuable than the Euro (not good for Labirinto shoes in terms of currency exchange)</p>
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TOWS ANALYSIS	
<p><i>How to maximize internal strengths through the use of external opportunities</i></p> <p>Filipe Shoes should expand to Australia with their own brand Labirinto by choosing a single city in the coastal area, preferably the biggest in terms of population to gain economies of scale and have higher sales potential. With this thought in mind, the best city would be Sydney. Moreover, they should keep selling a roughly similar ratio of male and female shoes in order to incur in less training costs (i.e. 15% male footwear sales and 85% output for the female segment). (S1. +S2. + S4. O1. + O2. + O11. + O12.)</p> <p>Given the quality and reputation of Portuguese footwear and the distinctive comfort of Labirinto Shoes, the firm should use this to their advantage when adapting to the Australian trend of targeting niche segments. Moreover, given the spending patterns of Australians, Labirinto should focus on the branding activities (to stand out in this competitive market) and target the niche segment of travellers shoes. (S3. + S6. + S7. + S8. O3. + O4. + O5. + O6. + O7. + O16.)</p> <p>As it is targeting a niche segment, Labirinto Shoes can increase their price tags slightly to cover their investments in branding and other incremental costs of the internationalization strategy. Nonetheless, they should increase the margin of profit to a level that the end price to consumers remains competitive for the middle-income class. (S5. O6. + O13. + O14. + O15.)</p> <p>Being a manufacturer for Clarks, which belongs to one of Australia’s biggest retailers, gives Labirinto an advantage. Since the production facilities are the same this provides credibility to the quality of the products of Labirinto Shoes too. This is beneficial and should be used to attract other retailers. (S9. O2.)</p> <p>Be present in the Australian Shoe Fair in Sydney, happening in March. (S8. + S9. O9.)</p>	<p><i>Strategy to reduce internal weaknesses by means of external opportunities</i></p> <p>Focus on a niche segment of active, adventurous, curious and young adults who spend in preparing for travel and who need comfortable shoes. Reduce the footwear portfolio and focus on the quality and comfortable shoes. Shoes that are comfortable but are wearable in all occasions, outdoors or for cities. (W1. O4+ O5. + O16.)</p> <p>By shifting to a differentiation competitive advantage, the brand Labirinto can charge higher prices thus increasing margins of the products and gaining more income to invest in R&D and innovation. (W2. +W4. O6.)</p> <p>Australia is open and receptive to new brands entering the market. (W5. O7.)</p>

<i>Means to avoid external threats using internal strengths</i>	<i>Ways to minimize both internal weaknesses and external threats</i>
<p>Focus on differentiation rather than cost advantage since the Asian manufacturers are very hard to compete with and use their past experience to avoid the same mistakes. (S1. + S4. + S6. T1. +T2. +T3. +T8.)</p> <p>Given the current price quality ratio and the characteristics and reputation of the Portuguese footwear for quality as well as their production experience (in which this firm is no exception), Labirinto Shoes could slightly increase their price tags, whilst still targeting the middle-high income class. (S5. + S6. + S7. + S8. T4.)</p> <p>Use their experience and know-how gained from past and current interactions of the firm to establish partnerships with firms that are in line with the environmental concern (ex: Planet Shoes). Moreover, Labirinto shoes enhance the leather origin of their products as being more organic than the synthetic materials. (S1. + S3 T7.)</p> <p>Given the exchange risk, Labirinto Shoes should write their agreements with the Australian entity in Euros or use forward contracts, to avoid the currency oscillation. (S5. T9.)</p> <p>In the future, Labirinto should invest in the use of more technologies in footwear (ex: breathable technology, temperature control and comfort engineering). (S6. T1.)</p>	<p>Focus on the Portuguese origin of the brand to attract attention and gain benefits in terms of reputation and recognition. (W5. T1. + T2. + T3.)</p> <p>Focus on clearly defining the brand identity and positioning in a way that targets a niche segment, this way they can deter this late entry by investing in a segment which is generally not thought of. See Appendix 22 for a suggestion of brand identity and positioning. (W1. T8.)</p> <p>Because stores have started to stock both seasons simultaneously, Labirinto can export only one season's collection (for instance just the summer collection) and this is also beneficial as they can sell the left over inventory of summer collections elsewhere to Australia, without having to use more manufacturing capacity. (W6. T5.)</p> <p>Develop a website & social media page (ex: Facebook) for Labirinto as complement of their advertising strategies so that they can clearly demonstrate the brand identity and positioning. Adapt the brand name to something easier to remember, for instance by shortening the name to "Labi" and registering this trademark (which according to the Australian Government's TM Check list is still available). This protection method is valid for 10 years and costs € 850 (Australia Trade Mark Registration, 2014). (W5. + W7 T3.)</p> <p>Labirinto Shoes designers should study the fashion trends of apparel in the Australian market in order to design footwear that complements their clothing style (especially in what concerns more laid back, leisure outfits used on holidays). This way they will also focus their collection on a specific segment, narrowing their offer. (W1. T2.)</p>

Entry mode

Once the analysis of Australia is done, it is critical to decide which entry mode is most adequate to maximize the efficiency of the internationalization strategy. Notice there are usually two types of SME's in what concerns internationalization; SME's with incremental internationalization and the born global firms.

The first type of SME follows the so called Uppsala model. According to this theory, developed by Johanson and Vahlne (2009), companies follow an incremental internationalization process that frequently begins with serendipity²². The stages are (i) periodic exports, establishing the first footprints in the foreign market without the need of compromising resources however lacking feedback; (ii) exports through an independent intermediary with local knowledge; (iii) establishing a foreign sales

²² An unexpected request of a firm's products from foreign countries

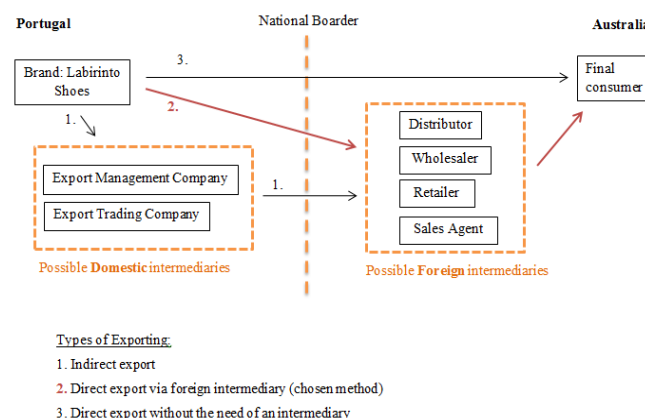
subsidiary gaining control over the distribution activities, and (iv) foreign production subsidiary, requiring the most resources and risks (Johanson, 2009).

Alternatively certain SME's are considered Born Globals; "rather than methodically engaging foreign markets, born global immediately step onto the world stage, exporting from inception" (Daniels, 2013). Nonetheless, with the development of the business environment and most notably with the rise of e-commerce, there is a new form of internationalization which brings the perspectives of incremental internationalization and born global closer together.

Although the Uppsala model is used in international business it has certain limitations and does not include all possible internationalization strategies. Many modes of entry can be selected; exports, a number of contractual agreements (ex: licensing & franchising and strategic alliances) and several kinds of foreign direct investments (FDI). All in all, the differences in the types of entry modes are mainly tied to the level of resource commitment necessary as well as the control, flexibility enabled by each and the risks incurred. Being that the risk is the lowest with exports and increases with contractual agreements and then FDI.

Given the analysis of the several modes of entry found in Appendix 23, the suggestion of entry strategy for the brand Labirinto is of exports. Being that Portuguese firms are in line with high uncertainty avoidance (Hofstede, 2014) this pushes towards the exports type of entry mode as it is the one that carries the least risks. In fact, through exporting the firm is internalizing activities, enabling "executives to retain their core competency within the company" (Daniels, 2013) and it also protects ownerships issues of the firm. The following figure, illustrates the types of exporting modes:

Figure 5 – Possible exporting strategies



As seen there are many types of exporting but direct exports²³ via a foreign intermediary is the best option because Labirinto Shoes will not erode profits as much as in the case of indirect exports (which implies an intermediary in the firm's home market). It also allows the firm to retain more control as in the case of indirect exporting Filipe Shoes would have to surrender to the intermediary's choice of who to sell, the price to establish and the marketing activities selected. Increasingly, direct exports will allow for a better understanding of the foreign market through the local intermediary's knowledge.

More specifically, within the direct exports making an agreement with a distributor is the most adequate choice. The main reason is because they buy and resell the products, increasing their commitment and motivation to perform well. In fact, by purchasing Labirinto Shoes this signals that they believe in the product and that its potential demand in the market will be positive (Cyert, 1963). This means it is a demand-driven method, thus reducing Labirinto Shoes' risks. The distributor will also act as a bridge between the Portuguese and the Australian footwear industry, mitigating the cultural and geographic barriers between these countries. Given the distributors presence in Australia, they will know the business environment (laws, procedures, way of doing things, culture, etc.), decreasing Labirinto Shoes' needs for investment in this area. Finally, given distributors buy the footwear from Labirinto, this means they are also responsible for arranging stock storage.

All in all, this distributor will be responsible for contacting and establishing contacts with the most adequate retailer(s). However, Labirinto Shoes must be aware of the pitfalls of this strategy to develop strategies that reduce these threats; namely, concerning control over sales, branding and after-sales service. Furthermore, in order to increase the effectiveness of this strategy and maximize its potential, Filipe Shoes should conduct a due diligence on several distributors, to scan their sales history, the performance of their sales force, the retailers with whom they make most agreements and their marketing infrastructure as a way to take an informed decision and select the best distributor (See Appendix 24 for tips on how to select the ideal distributor and how to negotiate with Australians). Although distributors should have the best interests in

²³ The process of selling of goods and services produces in one country to consumers in a country abroad through the use of an intermediary in the foreign market (i.e. distributors, agents or retailers). See more about the definition in Appendix 23

mind there is still a risk of Labirinto shoes being too dependent on a single entity. Hence, it is a good moral to have a parallel source of information that may increase costs in the short run but will surely be beneficial in the long run (Welch, 2007).²⁴ Finally, it is critical that Filipe Shoes thoroughly develops the brand Labirinto Shoes internally²⁵ so the distributor can position it correctly in the market.

Notice that the suggestion of investing in the exporting mode of entry follows an incremental internationalization which tends to favor selling first to similar or geographically close countries. However, because this is already done by Filipe Shoes there is the need to move to a more dissimilar country. See Appendix 25 for a summary of this export process.

Supply Chain Management

The next decision to be made concerns how to make the products reach Australia. Meaning, which supply chain route should Labirinto Shoes incur in to export their footwear collection to the overseas distributor in Sydney.

Having said this, the most recurrent option for overseas trading is the maritime transportation, owing to the fact that it is the cheapest option (World Industrial Reporter). Hence, for this purpose according to the ICC Incoterms the most common are; FOB²⁶ and CIF²⁷ (for more Incoterms see Appendix 26). The main difference lies in the point at which the risks are transferred from the exporter to the importer. With FOB the importer has to assume responsibilities and liabilities from the port of departure onwards, whilst in CIF the importer only assumes this risk from the port of arrival onwards. Hence, given the descriptions and analyzing each possibility, the most adequate for the brand Labirinto Shoes is to opt for the FOB contract. This is in fact more beneficial for both parties as Filipe Shoes incurs in less costs whereas the distributor will have more control over the freight cost as well as its service. The distributor will obtain faster and more accurate information regarding where the

²⁴ In fact, if the firm Filipe Shoes has the means to do so they should also **directly contact** retailers via e-mail and phone calls as a means to introduce the brand Labirinto. In case there is positive feedback from the retailers, the firm would contact the distributor who would then arrange the orders.

²⁵ By defining the brand internally, Labirinto has to clearly state its brand identity, its product portfolio and develop the merchandising activities (ex: online – website & social media pages).

²⁶ The seller is accountable for transporting the goods until the port from which they are going to be exported and loading the goods on the boarding vessel. From that point on the risks are carried by the buyer.

²⁷ Seller must incur in all costs until port of destination.

delivery stands and can receive help in case a problem arises (Akarca, 2014). The FOB contract to Sydney implies that “costs incurred in obtaining any document issued in the country of origin or of shipment or of both, which are required for purposes of exportation or of importation at the place of destination, are charged to the buyer” (Frecon, 1986). Moreover, according to the contacts done to freight forwarders the cheapest option from Leixões to Sydney consists in the route via Singapore, taking approximately 40 days (Wlportugal.com, 2014). These expenses will then assist in estimating the costs Labirinto Shoes incurs in as the COGS.

Therefore, using the cost-up pricing model, the following expenses have to be considered; origin warehouse packaging service, origin & export customs declaration/duty/tax, inland freight, port charges and loading on vessel besides the costs with raw materials, wages and other indirect costs as energy expenses. Finally, it is essential to evaluate the end price to consumers with this cost-up pricing model, to validate if it remains competitive. This is to say, Labirinto Shoes will use a mix of *cost-up pricing model* with *competitor’s pricing model*.²⁸

Implementation Plan

To enter the Australian market, Labirinto Shoes must first reinforce the relationship with CTCP and the design efforts of the team, invest more in brand management and restructure part of the organization. See Appendix 27 for a graphic illustration of resource commitment. Labirinto Shoes should also begin with the trademark registration and once this is done, they are in place to attend the Footwear fair in Sydney to promote their product portfolio. This should all be prepared whilst maintaining frequent communication with AICEP and PORTRADE who have the necessary tools to contribute to the implementation plan.

Using the 4M’s approach, one can define the necessary **Men** for the implementation plan, the **MEMO** (i.e. the objectives, KPI’s, targets & initiatives) and the minute & money. Regarding the latter, due to space limitations, the **minute** will be presented in the form of a business plan timeframe proposal which can be seen in Appendix 28 whereas the **money**, i.e. the necessary initial investment of this project,

²⁸ Whilst the cost-up model consists in calculating the costs incurred in and adding the desired profit margin, the competitors pricing model takes into account the pricing strategies of competitors.

will be briefly mentioned in the section of financial projections and in Appendix 29 and later in Appendix 34.

Regarding **Men**, the required changes are the recruitment of a new office employee responsible for a new unit that will be created, incurring in duties of customer relationship management, after-sales and internationalization. Additionally, the outsourced brand developer is essential to design the brand's website, logo and conduct other merchandizing activities. Finally, the most critical is establishing a contract with a distributor. This is why the preparation of the internationalization process was decided to be made in several steps, with visits to the footwear fair two years in a row as a means of research and for more direct and continuous communication with distributors. More specifically, after contacting PORTRADE, AICEP and the IBISCO database, the list of most adequate distributors, based on their purchase values, brands and agreements with retailers, from which the firm can choose from are; RCG Brands Pty Limited, Fusion Retail Brands Pty Limited and Fujian Footwear Australia.

MEMO (10 years)

	Objectives	Measurement	Target	Initiative
Financial	<ul style="list-style-type: none"> - Increase sales revenue and profit - Grow in Australia - Maintain affordable price tags - Decrease financial risk 	<ul style="list-style-type: none"> - Volume ordered by distributor - Labirinto Shoes margin - Market share - Sales value and volume - Competitors pricing analysis 	<ul style="list-style-type: none"> - Achieve a 1,55% market share in 2017 and 2,20% after 8 years - Profit margin over COGS of 40% - Payback period of 4/5 years - Achieve 97% of sales from exports 	<ul style="list-style-type: none"> - Pricing strategy - Direct export strategy, focused on differentiation - Research for the best distributor - Develop partnership with a local distributor
Customer	<ul style="list-style-type: none"> - Gain new clients - Create brand awareness & gain reputation in Australia - Reputation: good quality comfort at a fair price - Customer satisfaction - Get insights on Australian consumption patterns 	<ul style="list-style-type: none"> - Customer satisfaction surveys made to retailers and end consumers - Qualitative & quantitative research (ex: number of people who recognize the brand's name or logo) - Repurchases by final consumers - Nr of stores that sell Labirinto Shoes - Nr of Australian visitors to the website 	<ul style="list-style-type: none"> - 30% brand awareness - 90% customer satisfaction with Labirinto Shoes - Associate Labirinto with the travelling concept; active and curious young adults - Maintain footwear average price at around €120 - €130 - Be present in 5 retailers - Partner with at least 1 apparel store dedicated to the travelers' segment - Sell in another Australian city in the future 	<ul style="list-style-type: none"> - Participation in Sydney's footwear fair - Develop the brand's marketing strategy to present in fairs - Contact research entities (ex: universities or chambers of commerce) to partner with and help develop research on brand awareness & reputation - Partner with apparel stores that have similar or a complementary brand identity

Internal	<ul style="list-style-type: none"> - Increase Filipe Shoe's autonomy in the decision process - Clearly define the brand management strategy - Create a service unit - Create online content²⁹ - Exhibit in annual fairs - Manage partnerships - Innovation: develop the product 	<ul style="list-style-type: none"> - Nr of annual fairs & their feedback - Nr of partnerships - Distributors feedback and complaints - Nr of returned items - Tests on footwear quality - Nr of Australian visitors on the online platforms 	<ul style="list-style-type: none"> - Have the website and social media pages ready by the summer of 2015 - Be present in Sydney's annual shoe fair in March and in 10 years attend Melbourne's shoe fair in August - Achieve a 70 % click-through rate within the Australian population - Receive less than 7% customer complaints - Maintain a margin of error of final products below 3% 	<ul style="list-style-type: none"> - Develop the brand identity & positioning - Create a customer service unit; use CRM tools, e-mails and phone calls to constantly maintain contact - Use online tools to announce promotions or holiday destinations in line with the brand identity - Advertise the website and social media pages' online address on the packaging - Keep investing in innovation and R&D - Use new technologies for footwear (ex: breathable technology, temperature control) - Constantly verify trade legislations (via PORTRADE or other organizations) - Partnerships with "FBAUP"³⁰ & ESAD³¹ Matosinhos to improve design - Six sigma
Distributor	<ul style="list-style-type: none"> - Keep updated on the distributor's progress - Communicate frequently to brief the distributor in terms of marketing ideas - Take advantage of the distributor's network to expand to other Australian cities - Obtain information 	<ul style="list-style-type: none"> - Nr of retailers reached - Nr of end consumers - Inventory turnover ratio - Geographic coverage of distributors - On-time payment - Amount of emergency orders - Contact frequency with the distributor - Evaluate the utility of information - ROI (in this case = net profit/costs incurred with distributor) - Sales ratios and compare them with competitors - Freight efficiency – aim to reduce freight costs without harming delivery 	<ul style="list-style-type: none"> - Respond to customers' needs and preferences - Maintain communication with distributor to send a consistent marketing message - Sustain price competitiveness by preserving low distribution costs - Gain new Australian markets 	<ul style="list-style-type: none"> - Continuously communicate with the distributor and keep them up-to-date with the product and brand's information - Conduct analysis on distributors performance - Use public organizations or other sources of information (ex: online surveys) to obtain data for market research - Retain knowledge regarding sales and marketing activities - To deliver fair prices study different transportation means & analyze competitors - Keep visiting the footwear fair for prospective distributors who may have other retailers or be present in other cities - Analyze trends through distributors feedback and/or by checking specialized communication channels (ex: footwear press in Australia or forums) - Make periodic visits for direct contact - Check local media for effectiveness of advertising

Financial Projections

Another central aspect to take into consideration is the predicted financial outcomes as a means of evaluation of the project. Therefore, financials are reflected upon to assist in the evaluation of this project's attractiveness and the consequent decision of; "to invest or not to invest".

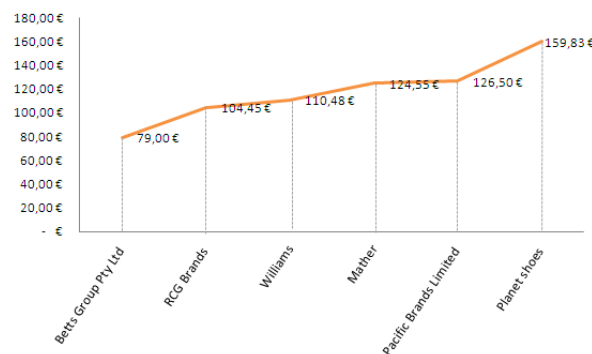
²⁹ For instance, by developing the website and social media pages as Facebook **in English**. This should be done internally by the firm so that they can work on the branding and mitigate the loss of control on this issue that generally arises when hiring a distributor. The online world has become extremely relevant and powerful due to its easy, fast and non-costly development that acts as a way to deliver and retrieve information. Labirinto shoes can get quick feedback, access a global audience and improve customer service, reducing the distance between the brand and end consumers (Cyert, 1963). However, given that it does not allow consumers to actively interact and feel the products, one may not evaluate the quality of the footwear thus making the **online tools a complement** to the physical stores, not a substitute.

³⁰ Faculdade de Belas Artes da Universidade do Porto

³¹ Escola Superior de Artes e Design

Regarding financial projections, the first step taken was to conduct the pricing strategy of Labirinto Shoes in order to obtain a final retailer price in the Australian market and validate its attractiveness. The calculations incurred to obtain these figures can be found in Appendix 29. From these calculations, the final price obtained for Labirinto Shoes in-store, taking into account the suggested margin of 40%, was of €117,21 and the average of the 8 selling years considered is € 123,86. The question one may ask is whether this is an acceptable value in Sydney or not. Thus, to test this hypothesis an extensive research on pricing analysis can be found in Appendix 30. This in-depth analysis includes some of the most known retailers, the brand portfolio they sell (only considering those that are most similar to Labirinto's brand identity) and the average price of each brand. Hence, the estimated average prices for retailers are presented in the following figure:

Figure 6 – Average Retail Prices in Australia



With an average price of € 124 Labirinto Shoes is in fact aligned with the prices in Australia, targeting the middle-class segment. Moreover, with such pricing strategy not only will Labirinto shoes avoid a price war but it may also see that the most retailers that have the most similar pricing and positioning are the following three; Mather, Pacific Brands Limited and Planet Shoes. In the case of Planet Shoes, another great opportunity it presents is that Labirinto Shoes may take advantage of the already existing networks this retailer has with Portuguese manufacturers as they sell Fly London (Portuguese brand). Increasingly, Planet Shoes has an online presence, which as seen previously in the PESTEL analysis is growing tremendously. Note that although the insights presented are relevant and should be taken into account, the ultimate decision is always taken by the distributor that Labirinto Shoes will hire.

Also critical is the market dimension to see if the market size compensates the costs that the firm will have to incur in. As such, given the demographic analysis (taking into consideration the income, the population's age and the probability of buying traveller's shoes in Sydney) the final market dimension is estimated to be around 124,15 thousand Australians, just in the first year (see Appendix 31). Nonetheless, with recognition and growth in sales, this value will increase over the years considered and bearing in mind the average selling price of Labirinto Shoes this will then give an average estimated market value of € 39.930,5 in the years considered for this business plan. Moreover, one can confirm that if reality follows the financial projections that can be found in **Appendix 31-35**, this is indeed a profitable project as the estimated market value calculated exceeds the cost of entry.

Regarding the values needed for the financial projections model, all data was obtained through contacts with the firm itself, freight forwarders and other institutions as AUSTRADE, PORTRADE or the Australian government (Appendix 31-35). Consequently, this model gave the following estimates for this project; an NPV of €90.410,31 for the years considered between 2015 and 2025, an IRR of 24% and a payback period between 4 to 5 years. Overall, this project looks promising and the major concern may lie in the payback period which seems quite significant. Notwithstanding, one must remember that this project not only involves internationalization but the launch of a new brand, thus incurring in even more costs.

An optimistic and pessimistic analysis was also conducted (Appendix 36-37) along with a sensitivity analysis (Appendix 38). This was done to study the impact certain changes as the market share obtained in the first year, the sales growth rates, the value of the initial investment and the WACC would have on the profitability of the project.

Last but not least, after exploring the financial model some additional remarks can also be made. Firstly, to obtain a faster payback period, Filipe Shoes can avoid going two years in a row to the Australian Footwear fair. Secondly, to obtain higher NPV's, higher IRR and a lower payback period the firm can vary the profit margin of Labirinto Shoes. However, increasing the profit margin has the downfall of resulting in higher final prices.

Finally, if Labirinto Shoes is not satisfied with the end price to consumers and would like to reduce this number, they can either search distributors and retailers who

charge a smaller markup or reduce the cost of goods sold, although the latter may have disadvantages, starting with a lower NPV for the project. The brand Labirinto Shoes must ensure that in case they select this route, the quality of footwear is not undermined in any way. Hence, the decline in COGS should only be considered if it can be gained by increasing the process efficiency or productivity of each worker, whilst maintaining a positive NPV. In fact, if one returns to the costs in the value chain, it is easier to see where the firm could cut expenses without harming the footwear's quality. For instance, one suggestion would be to establish contracts with suppliers because this allows them to maintain prices more constant, gain reliability and have closer contact with suppliers resulting in possible lower procurement costs.

Risk Analysis

Despite the fact that the previous findings point out in a positive direction, Labirinto Shoes must remember it may face two types of problems throughout this internationalization project. On the one hand, challenges can be found internally and on the other, there may be external problems associated to the type of export strategy selected. Concerning the former, Labirinto Shoes is extremely **dependent on their suppliers of raw materials** and this can bring complications with delivery deadlines. In case these deadlines are not met, Labirinto will delay the whole production process and consequently their delivery to distributors overseas. This will then reflect in problems regarding their reputation with their distributor, having a snowball effect on the brand's reputation within the retailers as well as final consumers.

However, most of the risks are tied with the problems of requiring a distributor. First of all, at least during the first years, Filipe Shoes is **dependent on a single distributor** which negatively influences their bargaining power. Distributors might be able to shrink Labirinto Shoes' margins or have monopoly over information on final consumers or other knowledge they gained. This reflects how vital it is to select the best distributor beforehand by analyzing background information to maximize the success of this internationalization process. Distributors ultimately influence Labirinto Shoes' brand image in Australia and also have the final say when it comes to marketing communications. Hence, Filipe Shoes should ensure they have **protection problems** covered by registering the brand name and through the use of exclusivity contracts and

have recurrent exchange of information between the brand manager and the distributor regarding the marketing messages. Filipe Shoes should also continuously monitor the distributor's performance to avoid future problems and ensure the success of Labirinto Shoes in Australia by taking advantage of support given by industry players as AICEP Australia, PORTRADE, and the Portuguese embassy in Australia, between others which may contribute to this evaluation.

Another risk is the **difficulty in achieving significant brand awareness**. To surpass this challenge Labirinto Shoes could decide on endorsing *brand strategy architecture*³² (at least during an initial stage) and use the corporate brand Filipe Shoes to guaranty credibility and attract distributors and retailers attention. I believe that the launch of the new own brand Labirinto Shoes may succeed this time as the transfer of knowledge between generations has helped strengthen the visibility, brand awareness and quality of the brand Filipe Shoes, which will give credibility to this new own brand in its initial stage. In fact, **the managers have more maturity and experience** when compared to the first time they tried to launch Filipe Shoes as an own brand and failed to do so. Alternatively, the *product brand strategy*³³ does not solve the awareness problem but presents other advantages.

Finally, being outside Europe implies the use of different currencies and the corresponding **exchange risk** as well as trade barriers imposed through additional transportation costs, taxes, duties and other costs that are transferred to consumers under the form of **higher final prices, negatively influencing demand**. Regarding the first problem, contracts could be written in euros to cover for currency fluctuations. Whereas to overcome the high final prices to end consumers, Filipe Shoes could opt for advice of external companies as consultancy firms or aid from financial organizations that will contribute towards studying the foreign markets, their respective legislations and their ways of doing business.

³² The corporate brand (i.e. the firm's name Filipe Shoes) remains "in the back stage" whereas the commercial brand (i.e. Labirinto Shoes) remains in the front. Advantages: The corporate brand transfers certain characteristics to the "endorsed brand" (ex: credibility, quality and technical expertise). The endorsed brand on the other hand, can add other brand functions or characteristics, as for instance a slightly different positioning. This means, that this brand architecture allows brands to be more flexible, without harming the corporate brand.

³³ The company/corporate brand is hidden and only the product's brand is known. Advantages: There is an opportunity to take risks in new markets and because the brands are independent of each other, the failure of one has no impact on another.

Conclusion & Recommendations

All in all, this internationalization project is aligned with the firm's current vision and mission. Nevertheless, it may not be realistic to reach 30% sales from their own brand in a timeframe of 20 years.

Anyhow, this project still points as a route to achieve this vision. Despite its challenges, Australia showcases a favorable market to invest in. Currently, the NPV of the project is relatively low at €90.410,31, however this only considers a market share of 1,55% for the first year which might be an underestimate. In fact, the internationalization project to Sydney should actually represent a test to the Australian market and thus may reach higher market shares in the long run (whereas this study only considers a timeframe between 2015 and 2025). If the brand succeeds in Sydney, this is an opportunity to expand into other Australian cities as Melbourne and Brisbane, thus becoming an interesting industry player. Besides, there are other important implications of incurring in this project as is the case of risk diversification, increasing the output capacity utilization and developing organizational resources. The financials have proved that this project will be profitable for all three scenarios; the pessimistic which assumes -20% sales growth rate per period (NPV = €71.321,89 ; IRR = 23%), the current scenario (NPV = €90.410,31 ; IRR = 24%) and in the optimistic scenario which considers sales growth per year is 20% higher (NPV €110.102,81 ; IRR = 25%).

More specifically, Labirinto Shoes should enter the market by exhibiting their summer collection in Sydney's footwear fair. In fact, selling only the summer collection is a great way to test market entry and follows the **lean startup business model**³⁴. The entry mode selected is of direct exports using the distributor as a bridge between Labirinto Shoes and the Australian retailers. It is key to carefully select this intermediary as the firm will be heavily dependent on them and there are risks which may arise. However, these issues as well as the recommended suggestions have been referred in the previous section.

In terms of pricing strategy, to make this project worthwhile, Labirinto Shoes should practice a gross profit margin over COGS of 40%, allowing them to reach the Australian market with competitive price tags between €120 and €130. Furthermore,

³⁴ The lean startup enhances the importance of experimentation and customer feedback and cooperative designs. This business model favors concepts such as "pivoting", which imply testing the market's reaction to the product and then performing the necessary adaptations (Harvard Business Review, 2013).

regarding sales volume, at an initial stage, Labirinto Shoes should solely sell the summer collection and consider exporting at a ratio of 85% to women and the remaining to the male segment, as a means to take advantage of the unused capacity without incurring in such significant incremental expenses.

Also, note that before any internationalization efforts it is critical to build a well thought out brand strategy, focused on the traveler's segment and consider registering a simpler name, easier to remember as is the case of "Labi". In fact, clearly defining the brand identity is critical as it may help distributors understand the positioning to be made in Australia. Moreover, by focusing on the branding efforts and reinforcing its niche positioning, Labirinto Shoes will differentiate itself from competitors. This is beneficial because, as seen previously in Porter's Forces, it will allow the firm to gain bargaining power, whilst reducing buyer's power and the threats of substitutes. Consequently, Labirinto Shoes may enjoy more freedom, in terms of pricing for instance. The key advantage of Labirinto Shoes in the Australian market would be its quality leather footwear at an excellent price-quality ratio. Furthermore, other internal improvements to be made are: the creation of the brand's communication channels, i.e. ensure an online presence in English, strengthening the relationships with CTCP and designers to improve their competitive advantage, along with innovation capabilities, and create a new service unit dedicated to internationalization, after-sales and CRM.

Increasingly, Labirinto Shoes should be aware of the future trends in the Australian footwear industry to prepare their adaption strategy to the business environment. More specifically, some of the factors to take into account are; the consumer's pressure for lower retailer margins as a result of the rise in e-commerce, the decline in the number of intermediaries³⁵, the rise in the male footwear segment and the future of Australian population's income.

To conclude, in spite of these findings, it is sensible for the firm to conduct a similar study for other markets to then compare the potential of each and select the most profitable one. More specifically, considering Filipe Shoes' choice of internationalizing either to Australia or Japan (studied by a colleague), the best decision is enter Japan first as this is a more promising market, despite the positive projections for the Australian market.

³⁵ in the future products may go directly from manufacturer to retailer or simply from manufacturer to end-consumer via e-commerce

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